



SONGA OFFSHORE ASA - REPORT FOR THE FOURTH QUARTER 2006

Songa Offshore ASA consolidated after tax profit for the fourth quarter 2006 was USD 3.7 million. Accumulated loss for 2006 was USD 20.7 million.

Income for the fourth quarter was USD 41.8 million. Accumulated for 2006 the income was USD 50.1 million. Income includes gain on sale of the 20.187% share in Deepsea Bergen of USD 19.1 million.

Operating expenses for the fourth quarter was USD 22.3 million. Accumulated for 2006 the operating expenses were USD 40.3 million, of which USD 15.4 million relates to the stock option programme.

Financial expenses for the period were USD 6.7 million. Accumulated the financial expenses were USD 24.7 million.

The capitalized recommissioning cost for the fourth quarter was USD 70.0 million. Accumulated for 2006 the capitalized recommissioning cost was USD 214.7 million. In addition USD 18.4 million in borrowing costs has been capitalized for the whole year.

Earnings per share (EPS) for the period was USD 0.05. Accumulated EPS for 2006 was USD (0.28).

Financing and share capital issues

In 2005 the Company issued options to management for 2,454,165 shares ("the 2005 Options Programme") plus conversion rights related to the financing of a blow-out preventer. The latter is, based on a NOK/USD exchange rate of 6.2485, estimated to involve 2,731,487 shares.

At the annual general meeting in June 2006, the Board of Directors was authorized to issue options to subscribe shares in the Company to employees and members of the Board ("the 2006 Options Programme"). Of the options to subscribe for 4,500,000 shares, a total of 2,500,000 were reserved for the exclusive allocation to members of the Board. The Board at its meeting 20 September allocated options to subscribe for 1,500,000 shares in the Company, with strike price NOK 53.41. (Further options for 500,000 shares was allocated today as discussed below).

The Board at its meeting 18 October allocated options to employees to subscribe for 1,715,000 shares in the Company, with strike price NOK 54.25.

The options granted in the 2006 Options Programme to employees will be vested over a period of time up until 31 December 2007, and thereafter exercisable within the following month. Options to board members vest immediately.

During the fourth quarter a total of 181,667 shares were issued following conversion of freely tradable warrants. The conversion price is USD 1.50. As at 31 December 2006 a total of 6,421,317 freely tradable warrants were remaining in the market. The warrant program expires in June 2008.

On 19 December the Company conducted a private placement of 3,500,000 shares in the Company at subscription price NOK 62.50 per share, raising gross proceeds in the amount of NOK 218.75 million. The offering was significantly oversubscribed.

Based on the above, the estimated fully diluted amount as per 31 December was 96,732,307 shares.

As at 31 December 2006 total outstanding shares in the Company was 81,910,336. Average number of shares in the fourth quarter was 78,828,742 shares, and 74,021,418 shares for the full year 2006.

As of 31 December 2006 Songa Offshore's interest bearing debt was USD 625 million. There were no unused bank facilities at year-end. Bank deposits and cash at 31 December 2006 was USD 90.6 million.

At an extraordinary general meeting 29 December 2006 the Shareholders decided to reduce the share capital premium fund in order to obtain a more flexible capital structure. The share capital premium fund was reduced with NOK 957,725,032 and the amount was transferred to "other equity", subject creditor notification period.

Employees in Songa Offshore ASA have in January 2007 exercised options under the 2005 Options Programme to buy shares in Songa Offshore ASA. In total, warrants for 2,454,165 shares have been exercised at a strike price of NOK 30 per share.

In addition another 200,300 warrants have been converted in January.

Total shares outstanding in Songa Offshore ASA after issuance of the new shares pursuant to the options and warrants are 84,564,801.

The Company entered into a Total Return Swap (TRS) agreement with Carnegie Investment Bank AB Norway on 4 January 2007. The agreement provided for cash settlement and with 2,129,165 shares in Songa Offshore ASA as underlying security. The initial reference price under the swap is NOK 59.50 per share and the swap agreement expires on 29 June 2007. Songa Offshore ASA will pay Carnegie Investment Bank AB Norway a sum equal to the latter's funding cost plus a margin. Songa Offshore ASA secures all the upside and downside on the price development of the underlying securities.

In connection with the acquisition of the Deepsea Trym in January 2007, the Company has relied on short term financing in the form of an unsecured 6 month commercial paper in the amount of USD 40 million, issued in December 2006 with a coupon of 8 3/8%, in addition to a bridge loan from a group of four banks in the amount of USD 210 million, of which USD 165 million has been drawn down in January 2007.

The Company intends to refinance the current bank facilities into one larger facility during the second quarter 2007. This will secure a longer and less aggressive installment profile, which will secure a positive cash flow for the Company when all the rigs are operating.

Main events in the fourth quarter 2006 and so far in 2007

The Company has sold the 20.187% interest in the rig Deepsea Bergen. Total net proceeds from the sale were USD 53.5 million. A profit of USD 19.1 million was booked during the fourth quarter.

The Company has acquired the midwater semi submersible Deepsea Trym for USD 238.5 million from Odfjell Rig Limited.

Deepsea Trym is of enhanced Aker H-3 design built in 1976 and has during the recent years been continuously upgraded to meet the latest operator and regulatory requirements for operations on the Norwegian Continental Shelf. The rig is currently working for Hydro on the Troll field on a firm contract until February 2008 with 2 ea 6 month options outstanding. The rig is equipped and maintained for operating in harsh environments for water depth up to 1320 ft and it holds an SUT / AoC diploma. The rig is classified by Det norske Veritas (DnV).

The transaction was completed and the rig delivered in mid January 2007 and Odfjell Drilling will continue to operate the rig for Hydro under a bareboat agreement for the remainder of the Hydro contract, which runs to March 2009 if all options are declared.

For the period up until the end of the Hydro contract, Odfjell Drilling will bareboat charter the rig from Songa at a daily rate of USD 50,000. The rig is scheduled for a renewal classification survey in July 2007. Odfjell Drilling will carry all costs related to the survey, but Songa Offshore will receive no charter hire during this period.

The rig is located in a separate subsidiary named Songa Trym AS.

The company has entered into a contract for the Songa Dee. The contract is firm for 2 years and includes 2 six-month option periods. The Operators, Marathon Petroleum Company (Norway) and Lundin Petroleum AB, may use the Songa Dee in the Norwegian and the UK sectors of the North Sea on an equal time basis. The contract will commence when the current operator releases the rig, which probably will be during the first quarter of 2009. The contract value for the firm period is in excess of USD 310 million. Among other elements, the contract includes cost escalation clauses, and standard provisions for mobilization.

The Mr. Bob Scott retired as CEO at year-end 2006, and Mr. Asbjørn Vavik (50) took over his position. At the same time Mr. Trond Christensen (45) took on the position as COO. Mr. Scott has accepted a position on the Board of Directors, and was elected at the extraordinary general meeting on 29 December 2006. We are further pleased to announce that Mr. Scott has accepted to assist the Company going forward with business developments and marketing on a consultancy basis. Mr. Scott has also been awarded options under the 2006 Options Programme to buy 500,000 shares with a strike price NOK 53.41 on the same terms as the other board members, which have been awarded the same.

Songa Offshore has now moved from being an organization focused on refurbishing rigs to operating and marketing the same. Given that the rigs are to be operated in Australia, South East Asia and Africa in the near future, the Board has decided to move most of the functions at the Houston office to Singapore. An office has been established in Perth, Western Australia to support operations of Songa Venus and Songa Mercur and in Malabo, Equatorial Guinea to support Songa Saturn.

The rigs

Songa Venus has been operating offshore Western Australia since mid November. The rig achieved a 95% operational effectiveness in November and December, but this fell to 73% in January due to certain operation problems, which we consider to be typical, start up problems. In February to date the rig has again achieved high operating rates.

Songa Saturn left the Tuzla Shipyard on 30 December, and had a planned stopover in Algeciras, Spain where equipment was tested. Due mainly to software problems on certain equipment the planned one week stay in Algeciras evolved into a four-week stay. The rig was accepted by Noble Energy on 6 February, and is currently on its way to Equatorial Guinea with ETA 21 February. The latest delay has increased estimated capital expenditure by another USD 3 million to USD 136 million.

Songa Mercur is currently being upgraded at Keppel Benoi Shipyard in Singapore. The recommissioning of the rig has been more extensive than first planned, and has also been delayed by bad weather during the monsoon rainfalls in January. The rig is expected to leave the yard end of February with incline test and load out to follow before the rig is expected ETD early March. The latest delays have increased the estimated capital expenditure for Songa Mercur by USD 2 million to USD 37 million.

As mentioned earlier in the report, Songa Dee has been contracted for two firm years to Marathon and Lundin from early 2009 with two six-month options period. The Company has started the process of establishing a Norwegian and UK organization and expects to have a number of people in place by the end of 2007.

With the contract for Songa Dee in place, the Company saw the opportunity to increase the fleet by a further rig. The marketing of the Deepsea Trym will start in the next few months, and the new organization put in place in Norway and UK will also be involved in monitoring the SPS of Deepsea Trym. The seller and bareboat charterer, the Odfjell group, will carry through the SPS this coming summer.

Market conditions and outlook

The demand for drilling rigs continues to be strong in all segments. The mid water segment, which is the category all of the Company's rigs belongs to, has shown the strongest improvement in rates in 2006. The most apparent change lately has been the increase in the forward curve for contracts for the period 2009-2012, exemplified by the contract Songa secured for the Songa Dee. With the continued high crude oil prices both demand for exploration and development drilling offshore is expected to stay strong. Recent reports from the oil production market indicate that non-OPEC production is struggling even to stay flat. More or less all oil majors have had to report missing production targets. This we believe will increase governmental and shareholder pressure to increase exploration budgets further.

The three rigs the Company has had under conversion are finalized or getting close to being finalized. All rigs have already entered into their first contracts with major operators, and contracts have already been extended, or discussions are currently being conducted for doing so, which we believe documents the confidence these customers have to our company. The Board wishes to increase the contract coverage further, and aims to land one or two contracts with one to three year terms within the next six months. On the Songa Venus the operators ENI and Inpex have to declare the first of two six-month options by mid May. Chevron and Santos will have to do the same for Songa Mercur by late September at the latest, assuming Songa Mercur leaves Singapore early March. The main efforts will therefore be placed on securing new contracts for Songa Saturn and Songa Trym. Both these rigs will be marketed worldwide.

Oslo, 14 February 2007
Board of Directors
Songa Offshore ASA

Questions should be directed to:

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FINANCIAL STATEMENT

1 General information

Songa Offshore ASA ("the Company") and its subsidiaries (together, "the Group") own and operate offshore drilling rigs. The Group is headquartered in Oslo, Norway, and the rig operations are run from Singapore. The Group has operations in the North Sea, offshore West Africa and offshore Western Australia. The Company is listed on Oslo Stock Exchange since 26 January 2006.

2 Basis for preparation

This condensed interim financial information for the year ended 31 December 2006 has been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The interim financial statements are prepared in accordance with IAS 34 "Interim financial reporting". The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005.

Revenue and expense recognition

Revenue derived from charter-hire contracts or other service contracts is recognized in the period that services are rendered at rates established in the relevant contracts.

Certain contracts include mobilization fees payable at the start of the contract. In cases where the fee covers a general upgrade of a rig or equipment which increases the value of the rig or equipment beyond the contract period, the fee is recognized as revenue over the firm contract period whereas the investment is depreciated over the remaining lifetime of the asset.

In cases where the fee covers specific upgrades or equipment specific to the contract, the mobilization fees are recognized as revenue over the firm contract period. The related investment is depreciated over the firm contract period. In cases where the fee covers specific operating expenses at the start up of the contract the fees are recognized in the same period as the expenses.

Consolidation

In 2005, Songa Offshore ASA acquired a "blow-out preventer" (BOP) for use on the rig Songa Mercur. In order to finance the BOP, Songa entered into a sale-leaseback transaction with a Special Purpose Entity (SPE). The chairman of Songa Offshore ASA has increased his owner share in the SPE and based on the guidelines in SIC 12 the entity is consolidated.

4 Segment information

When evaluating business segments and geographical segments it becomes evident that the group has only one business segment; mid water, and only one geographical segment; world wide, accordingly no further allocation is done.

5 Capital

	Number of ordinary shares (thousands)
Opening balance 18 April 2005	1 000
Issue of share capital	53 087
Conversion of warrants	4 991
Paid in not registered	184
At 31 December 2005	<u>59 262</u>
Opening balance 1 January 2006	59 262
Issue of share capital	9 800
Conversion of warrants	12 848
Paid in not registered	0
At 31 December 2006	<u>81 910</u>

The Company was incorporated on 18 April 2005.

In connection with the initial capitalization of the Company in May/June 2005, the Company issued 24,444,444 freely tradable subscription rights (warrants) with a term of 3 years from the date of issuance (i.e. until June 2008).

Songa Offshore Group

Consolidated income statement

for the period

(IFRS - non audited figures)

	OCT - DEC	OCT - DEC	JAN - DEC	APR * - DEC
Amounts in USD '000	2006	2005	2006	2005
Revenue	41,817	1,207	50,116	1,207
Other operating costs	-22,306	-3,809	-40,255	-5,711
Depreciation	-7,526	0	-13,812	0
Finance costs	-6,672	-9,777	-24,664	-24,826
Profit/(loss) before tax	5,313	-12,379	-28,615	-29,330
Tax income/(expense)	-1,626	4,384	7,874	4,384
Profit/(loss) for the	3,687	-7,995	-20,741	-24,946
Net earnings per share (USD):				
Basic	0.05	-0.14	-0.28	-0.47
Dilutive	0.05	-0.14	-0.28	-0.47

* Inception at 18 April 2005

Songa Offshore Group

Consolidated balance sheet at

(IFRS - non audited figures)

	31 Dec	31 Dec
Amounts in USD '000	2006	2005
ASSETS		
Deferred tax	12 388	4 384
Rigs and fixtures	712 332	222 462
Investments	-	34 056
Total non-current assets	724 720	260 902
Accounts receivable	20 824	1 039
Prepayments	2 654	417
Other receivables	26 743	962
Cash and cash equivalents	90 621	2 220
Total current assets	140 842	4 638
Total assets	865 562	265 540
EQUITY AND LIABILITIES		
Equity		
Share capital	12 791	9 254
Share premium	180 580	75 984
Paid in, not registered share capital	0	276
Other equity	(31 773)	(24 946)
Total equity	161 598	60 568
Bank loan	211 389	45 902
Bond loan	167 889	108 142
Other long term debt	6 024	11 106
Total non-current liabilities	385 302	165 150
Accounts payable	6 714	5 303
Accrued interest expense	15 352	3 675
Bank loan	246 142	19 840
Prepaid revenues	26 056	-
Other short term liabilities	24 398	11 004
Total current liabilities	318 662	39 822
Total liabilities	703 964	204 972
Total Equity and Liabilities	865 562	265 540

Songa Offshore Group

Statement of changes in equity

(IFRS - non audited figures)

Amounts in USD '000					
	Share capital	Share premium reserve	Paid in, not registered capital	Other equity	Total equity
Equity at 04.18.2005	158	842			1,000
Issue of share capital	9,096	65,514			74,610
Issue of warrants		9,628			9,628
Paid in, not registered capital			276		276
Profit (loss) for the period				(24,946)	(24,946)
Equity at 12.31.2005	9,254	75,984	276	(24,946)	60,568
Equity at 01.01.2006	9,254	75,984	276	-24,946	60,568
Conversion of warrants not registered at 12/31 2005	28	248	-276		0
Conversion of warrants Jan - Dec	1,991	17,281	0		19,272
Paid in, not registered capital			0		
Option plans				14,838	14,838
Issue of share capital	1,518	87,067			88,585
Pension plan				-3	-3
Translation adjustments				-210	-210
Exchange differences on foreign subsidiaries				-711	-711
Profit (loss) for the period				-20,741	-20,741
Equity at 12.31.2006	12,791	180,580	0	-31,773	161,598

Songa Offshore Group

Consolidated statement of cash flows at

(IFRS - non audited figures)

	31 Dec	31 Dec
Amounts in USD '000	2006	2005
Operating profit (loss) before tax	(28 615)	(29 330)
Cash flows from operating activities		
Adjustment for:		
Gain on sale of available-for-sale investment	(19 022)	
Depreciation	13 812	
Cost of option plans	14 838	
Interest expense	18 671	
Interest paid	(15 531)	
Change in receivables	(47 803)	(2 419)
Change in payables	10 534	10 179
Increase in fair value of BOP option	6 671	5 609
Non cash expense from redemption of bond loan		9 900
Prepaid revenue	26 056	
Net cash flow from operating activities	(20 389)	(6 061)
Cash flows from investing activities		
Purchase of property, plant and equipment	(503 682)	(222 461)
Proceeds from disposal of property, plant and equipment	-	15 300
Proceeds from sale of available-for-sale investment	53 079	
Acquisition of available-for-sale investment	-	(34 056)
Net cash flow used in investing activities	(450 603)	(241 217)
Cash flows from financing activities		
Proceeds from issue of share capital	107 857	74 614
Proceeds from issue of bonds and new bank loan raised	451 536	173 884
Net cash flow from financing activities	559 393	248 498
Net increase/(decrease) in cash and cash equivalents	88 401	1 220
Cash and cash equivalents at beginning of period	2 220	1 000
Cash and cash equivalents at end of period	90 621	2 220

Songa Offshore Group

Restated Consolidated income statement

USD '000 (IFRS - non audited figures)

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
Revenue	2 601	1 360	4 338	41 817
Operating cost	(6 334)	(4 894)	(6 721)	(22 306)
Depreciation	-	(2 464)	(3 822)	(7 526)
Finance cost	(6 844)	(886)	(10 262)	(6 672)
Profit/(loss) before tax	(10 577)	(6 884)	(16 467)	5 313
Tax income/(expense)*	2 962	1 928	4 611	(1 626)
Profit/(loss) for the period	(7 615)	(4 956)	(11 856)	3 687

* 28% of quarterly results Q1-Q3

	Jan-Mar	Jan-Jun	Jan-Sep	Jan-Dec
Revenue	2 601	3 961	8 299	50 116
Operating cost	(6 334)	(11 228)	(17 949)	(40 255)
Depreciation	-	(2 464)	(6 286)	(13 812)
Finance cost	(6 844)	(7 730)	(17 992)	(24 664)
Profit/(loss) before tax	(10 577)	(17 461)	(33 928)	(28 615)
Tax income/(expense)	2 962	4 889	9 500	7 874
Profit/(loss) for the period	(7 615)	(12 572)	(24 428)	(20 741)

* 28% of quarterly results Q1-Q3

Songa Offshore Group

Restated Consolidated balance sheet

USD '000 (IFRS - non audited figures)

ASSETS	31 Mar	30 Jun	30 Sep	31 Dec
Deferred tax	7 970	10 961	14 014	12 388
Rigs and fixtures	248 517	562 903	643 581	712 332
Investments	44 151	47 150	50 150	-
Other long term	-	3 809	-	-
Total non-current assets	300 638	624 823	707 745	724 720
Accounts receivable	555	1 239	2 827	20 824
Prepayments	27 769	2 650	1 082	2 654
Other receivables	2 384	2 654	3 515	26 743
Cash and cash equivalents	26 556	11 338	8 127	90 621
Total current assets	57 264	17 881	15 551	140 842
Total assets	357 902	642 704	723 296	865 562
EQUITY AND LIABILITIES				
Equity				
Share capital	11 054	12 141	12 201	12 791
Share premium	136 388	145 592	146 094	180 580
Paid in, not registered share capital	-	-	-	-
Other equity	(19 872)	(22 011)	(21 402)	(31 773)
Total equity	127 570	135 722	136 893	161 598
Bank loan	71 462	179 456	199 945	211 389
Bond loan	104 052	181 625	181 725	167 889
Other long term debt	13 714	7 913	5 724	6 024
Total non-current liabilities	189 228	368 994	387 394	385 302
Accounts payable	8 190	7 058	10 287	6 714
Accrued interest expense	6 439	10 513	4 879	15 352
Accrued operating expense	4 913	7 879	-	-
Bank loan	14 498	95 000	142 500	246 142
Prepaid revenues	-	11 750	20 290	26 056
Other short term liabilities	7 064	5 788	21 053	24 398
Total current liabilities	41 104	137 988	199 009	318 662
Total liabilities	230 332	506 982	586 403	703 964
Total Equity and Liabilities	357 902	642 704	723 296	865 562